Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs	)	CC Docket No. 97-160
	)	DA 98-848
	)	

To: The Common Carrier Bureau

COMMENTS OF PUERTO RICO TELEPHONE COMPANY

Puerto Rico Telephone Company ("PRTC") hereby submits comments in response to the Common Carrier Bureau's Public Notice seeking to augment the record related to the creation of a federal forward-looking economic cost mechanism for non-rural carriers.[1] This Public Notice specifically seeks comment regarding the appropriate input values for the proxy model and the level of the revenue benchmark. PRTC reiterates that non-rural carriers serving insular areas should not be subjected to the proxy model methodology as of January 1, 1999. The outputs for Puerto Rico under either proposed models demonstrate both that a flash-cut transition to this methodology will be devastating for universal service efforts in Puerto Rico and that discrete adjustments to the existing model inputs cannot address sufficiently the anticipated reduction in

[1] "Common Carrier Bureau Requests Further Comment on Selected Issues Regarding the Forward-Looking Economic Cost Mechanism for Universal Service Support," Public Notice, CC Docket Nos. 96-45 and 97-160, DA 98-848 (rel. May 4, 1998); Order, CC Docket Nos. 96-45, 97-160, DA 98-990 (Acctg. Policy Div. Com. Car. Bur. rel. May 22, 1998 (granting extension of time to file comments and replies).

federal universal service support to Puerto Rico by January 1, 1999. For these reasons, conversion to the proxy model methodology for non-rural carriers serving insular areas must be delayed. Any other approach will be counter to statutory universal service requirements.

I. ADJUSTMENTS TO THE MODEL INPUTS ARE INCAPABLE OF ALLEVIATING THE PROJECTED LOSS OF UNIVERSAL SERVICE SUPPORT TO PUERTO RICO

As PRTC has previously identified, calculation of universal service support for Puerto Rico based on a proxy model methodology would dramatically reduce the amount of universal service support currently distributed to the island from the federal fund. Both the Hatfield and BCPM model outputs result in extreme reductions in universal service support for Puerto Rico. The estimated universal service support for Puerto Rico this year based on receipts thus far is projected to be $146 million. According to the uncapped BCPM, Puerto Rico's total universal service need is $37,055,340, and the Hatfield model forecasts that PRTC should receive only $685,020 in universal service support. As currently formulated, federal support for Puerto Rico would be $9,263,835 and $171,255 – respective reductions to one-sixteenth and slightly more than one-thousandth of 1998 identified need. Under either model, support will be virtually eliminated, even if the Commission determines to increase the total amount of support to be provided through the federal fund.[2] At bottom, these projected reductions, coupled with PRTC's required contribution in excess of $9 million (not including any required contribution to an intrastate mechanism), would entirely eliminate federal universal service support for Puerto Rico.

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[2] See Federal-State Joint Board on Universal Service, Report to Congress, CC Docket No. 96-45 (rel. April 10, 1998) at ¶ 197 (announcing the Commission's intention to issue an order on reconsideration addressing this issue).

Although adjustments in the input values may increase the amount of required support predicted by the models, there is no reason to believe that these models will provide universal service support anywhere close to $146 million dollars for Puerto Rico. However, only this amount will ensure that federal universal service support is not reduced for Puerto Rico, an insular area having only a 76 percent penetration rate. In this environment, rate reductions are required to increase subscribership to a rate that is commonplace on the mainland, but such reductions will not be possible if Puerto Rico is subject to new methodology. According to the proxy model methodology, not only will rate reductions to consumers be impossible in Puerto Rico, but rate increases are inevitable. However, it is highly unlikely that when Congress enacted Section 254 of the Communications Act that this was the intended result – dramatic reduction in federal support to an area of greatest need.

This dilemma will not be resolved through adjusting the inputs for the model – the magnitude of the problem is too severe. Indeed, systemic problems regarding data for Puerto Rico also makes such an effort impractical. Reliable Puerto Rico data cannot yet be input because it has not been generated for the island. Customer location data provides a useful example.

One of the most deliberated aspects of the models and their accuracy has been customer location inputs. The Common Carrier Bureau has reached the conclusion that reliability and accuracy of customer location data are essential to accurate model results, proposing the use of geocode data that associates the location of each customer with latitudinal and longitudinal coordinates. The Bureau stated that "[b]ecause assumptions about the location of customers have a large impact on loop length calculations, the use of more accurate customer location data is consistent with the criterion specified in the Order that ` a model's average loop length should

reflect the incumbent carrier's actual average loop length.'"[3] The Bureau recommended that "models be capable of accepting and using geocode data to the extent that such data are available and reliable."[4]

However, no such data exists for Puerto Rico. As the Telecommunications Regulatory Board of Puerto Rico reported,

> The Population and Economic Census are conducted on the island but with lesser degrees of accuracy on the exact location of residences and businesses. Preparations for the decennial census in 2000 are underway and a greater degree of accuracy (street location and geo-coding) will be available even before January 2000. The Economic Census currently collects location information based upon the "municipio", which is similar to a county on the mainland. There is currently no effort underway to improve the location accuracy of this data for the 2002 Economic Census. Due to budgetary considerations in Washington, there is not much support for improving the Economic Census for Puerto Rico.[5]

This information will not be easily developed. Unlike the mainland, Puerto Rico does not have a systematic addressing system. For rural areas in particular, the address is not likely to have any relationship with the location of the addressee. The Census Bureau has not begun developing this type of information for Puerto Rico – it is unrealistic to expect that PRTC alone would be able to do so within the near future. PRTC simply does not have the information at its disposal to create this type of database, one which has been deemed essential to the accuracy of the model.

Moreover, reliable data inputs will not be unable to correct systemic model flaws.

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[3] "Guidance to Proponents of Cost Models in Universal Service Proceeding: Customer Location and Outside Plant," Public Notice, CC Docket Nos. 96-45 and 97-160, DA-2372 (rel. Nov. 13, 1997).

[4] Id.

[5] Ex parte letter from Phoebe Forsythe Isales, President, to William E. Kennard, Chairman, FCC (dated April 22, 1998) (emphasis added).

The recently identified flaw in the Hatfield model, which causes the model to underestimate the cost of providing universal service in rural areas, demonstrates that the adjustment of inputs alone may not ensure that the incumbent carrier's actual network is replicated by the model. Apparently, the Hatfield model underestimates the distance between customers and feeder cables in rural areas, not due to input errors, but due to a defect in the underlying algorithm itself.[6] Sprint was unable to analyze and identify this flaw until the relevant information was made available in a proceeding before the Nevada Public Service Commission in which the Commission required AT&T to provide parties with access to the underlying, proprietary geocoded customer location data.[7] Even though a study of only limited information has led to the discovery of an otherwise undetected flaw, the march toward implementation of a proxy model methodology continues for all insular carriers. This approach is of no consequence to carriers that stand to receive new or additional universal service funding under either model. PRTC, however, agrees with the Telecommunications Regulatory of Puerto Rico when it states that with respect to Puerto Rico, "[o]ur review of the models indicates that the models are not ready to provide a proper foundation for public policy."[8]

At bottom, attempts to adjust model results for Puerto Rico simply by changing input values is not a realistic solution to the universal service problem. This issue demands the time

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[6] FCC Staff Memorandum re "A Test of Customer Dispersion in the HAI Customer Location Algorithm" (dated May 13, 1998); see also ex parte Letter from Jay C. Keithley, Sprint, to Richard Metzger, Chief, FCC Common Carrier Bureau (dated April 23, 1998).

[7] See Sprint ex parte at 2.

[8] Letter from Phoebe Forsythe Isales, President, to FCC Common Carrier Bureau (dated May 8, 1998).

and study that the Commission already has determined is appropriate to ensure that outputs for rural carriers are sufficient.

II. PUBLIC POLICY REQUIRES THAT UNIVERSAL SERVICE FOR CARRIERS SERVING INSULAR AREAS AND RURAL CARRIERS BE TRANSITIONED TO THE PROXY MODEL METHODOLOGY

Section 254(b)(3) specifies that customers in rural, insular, and high cost areas must have access to services at rates that are reasonably comparable to the rates of consumers in urban areas.[9] The Commission has determined that rural carriers cannot be transitioned immediately to the proxy model methodology because this methodology has not been sufficiently refined to ensure that universal service will not be jeopardized because the mechanisms cannot predict accurately the cost of serving the area.[10] This public policy determination is equally applicable to insular areas.

The Commission determined that rural carriers will be subject to the proxy model cost methodology only when it had found "based on a fully developed record, that a forward-looking economic cost mechanism for rural carriers will produce results that are sufficient and predictable."[11] The cost models in the proceeding produced a higher margin of error for rural carriers, leading to the Commission's conclusion that these carriers should not transition to the new mechanism in 1999.[12] In addition, rural carriers, like PRTC, generally serve fewer subscribers, serve more sparsely populated areas, and do not benefit from economies of scale or scope like the largest incumbent local exchange carriers, thereby justifying a gradual shift to a

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[9] 47 U.S.C. § 254(b)(3).

[10] See Federal-State Joint Board on Universal Service, Report and Order, 12 FCC Rcd 8776, 8935-36 (¶ 293) (1997)

[11] Fourth Order on Reconsideration, 13 FCC Rcd 5318, 5364 (¶ 78) (1997).

proxy model methodology.[13] As is the case for PRTC, the Commission could not ensure that rural carriers "would receive appropriate levels of support if [it] allowed them to receive support calculated using the forward-looking economic cost mechanisms for nonrural carriers."[14] The Commission recently affirmed this conclusion in its Report to Congress.[15] Moreover, like rural carriers, PRTC must continue to recover long term support from the new universal support mechanisms.[16]

In this regard, the Commission encouraged the Joint Board to establish a Rural Task Force to "provide valuable assistance in identifying the issue unique to rural carriers and analyzing the appropriateness of proxy cost models for rural carriers."[17] The Joint Board subsequently established this task force to consider whether the platform design features or input values for a forward-looking economic cost mechanism for rural carriers should be different from those adopted for non-rural carriers.[18] This is the same quality of review necessary for insular areas, even those served by non-rural carriers. The record in this proceeding supports the delay of transitioning carriers serving insular areas to the proxy model methodology no earlier than January 1, 2001.

(..continued)

[12] Id.

[13] Id.

[14] Id.

[15] Report to Congress at ¶ 219.

[16] Universal Service First Report and Order, 12 FCC Rcd at 8942 (¶ 305).

[17] Id. at 8917 (¶ 253).

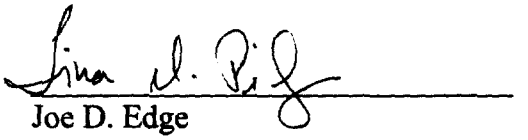
[18] See "Federal-State Joint Board on Universal Service Announces the Creation of a Rural Task Force," Public Notice, 12 FCC Rcd 15752 (1997).

III. CONCLUSION

The model outputs that have been generated for Puerto Rico demonstrate standing alone that the proxy models do not ensure sufficient universal service support for the island. Updates or changes in the input values cannot address a problem of this magnitude; as PRTC has shown, it lacks reliable data even for one of the most essential platforms – customer location. Without this data, it is unable to test with further specificity, as Sprint has done, the accuracy of the models themselves.

Section 254 specifically calls for universal service at comparable rates for insular areas. However, the predicted elimination of universal service support for Puerto Rico and the obvious inability for changes to the inputs to correct this problem also supports treating carriers serving insular areas like rural carriers. For these reasons, it is necessary to delay the transition to a proxy model methodology for these carriers until support generated by the model is sufficient.

Respectfully submitted,



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Dated: June 1, 1998

CERTIFICATE OF SERVICE

I, Dottie E. Holman, do hereby certify that copies of the foregoing Comments of the Puerto Rico Telephone Company were sent by hand-delivery and first-class mail this 1st day of June, 1998, to the following:

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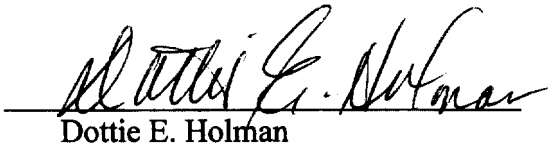

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*By hand delivery